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UNCLAS SECTION 01 OF 02 WELLINGTON 000690

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SUBJECT: SCANDALS APLENTY, BUT TALK OF LABOUR'S DEMISE IS PREMATURE

Ref A: WELLINGTON 598

Summary

¶1. (SBU) Labour's recent political problems have been compounded by new accusations of election campaign spending abuse. Meanwhile, new evidence of inappropriate behavior by an already disgraced Labour MP may finally force Labour's leadership to kick him out of the party, impairing the Government's ability to pass legislation. In theory this could cause the Government to fall, leading some analysts to predict that PM Clark will not last through her three-year term. To date only one poll shows firm signs of the public abandoning support for Labour.

New scandal comes at a bad time for Labour

¶2. (SBU) Labour's latest crisis was brought to the public's attention on August 22nd when the Auditor-General made public the contents of a draft report questioning the legality of Labour's 2005 general elections campaign spending. The report, which has not yet been finalized, suggests that Labour misappropriated NZ\$446,000 of taxpayer money on party pledge cards and brochures sent to voters three weeks before the September elections. Heather Simpson, Prime Minister Clark's influential chief adviser and overseer of Labour's campaign funding, narrowly escaped prosecution in March after police found there was a *prima facie* case against her over the pledge card.

Further muddying the waters for Labour are media reports that Labour Party President, Mike Smith, knew in advance of the election that it was illegal to use taxpayers' money on the cards.

¶3. (SBU) National's leader Dr. Don Brash is demanding Labour pay back the money. PM Clark initially countered that the election spending rules are unclear and ineffective. She claimed the National had overspent as well (although it has paid back the NZ\$10,588 the Auditor General identified as having been overspent by National). Clark argues that the draft report could have implications for the NZ\$350 million in spending by all political parties over the past 15 years. When her counterattack failed to gain traction, Clark changed tack and floated the idea of state funding for political parties. This would include retrospective legislation to validate Labour's election spending. The public was not impressed: a Herald DigiPoll found that 81% all of respondents (and 75% of Labour supporters) believe that all political parties should repay unlawfully spent public money. The same poll found only 13.5% of Labourites support Clark's proposed retrospective law. Labour seeks to distance itself from disgraced MP

¶13. (SBU) Just when the election scandal reared its head, Labour received another blow from fresh allegations of improper behavior by its Samoan MP Philip Field, who has been accused of using his Ministerial position to improperly help and even exploit immigrants for personal gain (Ref A). The new accusations involve document tampering, taking money from an elderly constituent and accepting bribes for services. Clark has in the past stood by Field out of party loyalty and the need to preserve her one-seat majority in Parliament. But as even Pacific Island community leaders are now calling for Field to resign in light of the latest accusations, on August 29 Clark at last openly questioned whether he has a future in the Labour Party. On August 31, the NZ Police announced it would investigate formally the allegations. Clark immediately suspended Field from all his duties with full pay. Field's vote in Parliament will be held by Labour's Chief Whip until he returns from leave, thus retaining Labour's majority.

¶14. (SBU) Field has announced that he will not resign as Labour's MP for Mangere, although his refusal to comment whether he will run at the next election may signal that he accepts Clark's hint that he has no future in Labour. But, little is certain about where both he and Clark go from here. The PM has the power to prevent Field from running as a Labour candidate in two years' time and can also expel him from the party now (although for now she has little incentive to kick him out since he has been suspended.) NZ law prevents Clark from ousting Field from Parliament, where he could remain as an independent if kicked out of Labour. At present, Labour needs the support of two other parties to pass legislation. As the vast majority of votes in Parliament are Party votes (where the MPs vote along party lines), the loss of Field's unconditional support would require Labour to secure backing from three parties to ensure passage of legislation. An independent Field could therefore

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undermine Labour's ability to pass key legislation such as the budget, which could in turn cause the Government to fall.

¶15. (SBU) Field could alternatively resign from Parliament and run as an independent in the resulting by-election. Field claims he has done nothing wrong and that the people of Mangere want him to remain as their MP. His victory is not a shoo-in, however. Mangere is one of Labour's safest seats, and some Pacific Island community leaders believe that Field only won his seat because he was the Labour candidate. A Labour win in a by-election contest would ensure Clark's majority is maintained.

Polls suggest Labour slippage

¶17. (SBU) Not surprisingly, Clark claims ordinary voters are not overly concerned by the latest scandals. Colmar Brunton's latest poll bears this out, with an insignificant National lead of two points over Labour (45% vs. 43%). The latest Morgan Poll found early August support for National Party was down 1% to 41%, with Labour support dropping just 1%, to 39%. Labour's own internal polling actually puts it ahead of National. The recently released UMR poll shows National has crept ahead to a 4.5 point lead over Labour.

¶18. (SBU) The just-released Herald DigiPoll shows National opening up a 7.7 point lead over Labour (46.4% vs. 38.7%). So far, at least, the Government is not convinced this means it's heading down a negative track. One well-regarded Labour MP close to Clark told us that some "backlash was bound to happen" as a result of the attention paid to Labour's problems. He claims the party will not lose too much sleep over this one poll as the election is a "political lifetime away" and Labour won the 1999 election with this same level of party support. He also says Clark, Simpson and Deputy Prime Minister Michael Cullen are far more skilled politically than National and they can ride out the scandal. Significantly, most National MPs we've spoken to agree that Labour is in no real danger of tumbling over its latest troubles.

(SBU) Comment: The police investigation has upped the ante for Field. If he is found to have committed a crime, then he will be

removed from Parliament. It might not get this far though. Post believes that Field will resign before he is pushed. The fact that National is only now reaping a political dividend from Labour's seemingly never-ending scandals shows how ineffective the opposition's attacks have been to date. Clark has pretty much headed off every National gambit to taint her administration, leading some to speculate that Brash's days as leader are numbered. Nonetheless, the Herald poll is giving National MPs a boost, and we see no signs National plans to end its campaign to link Labour with sleaze (in fact, one National MP tells us what his party really wants Field to remain as a Labour MP in order to help reinforce this perception). But National's strategies aside, Labour may be helped by the fact that politics in New Zealand is a short game. The next scheduled election is 2 years away, and it is only really when the official election campaign starts, just 3 months out from Election Day, that most New Zealanders sit up and pay attention to politics. As long as the police investigation lasts, the Government can justifiably refuse to comment on the Field case. If the latest problems persist (or increase) as the next election nears, they are likely to damage Labour's prospects. Until then, we wouldn't write the Government off just yet.

McCormick